



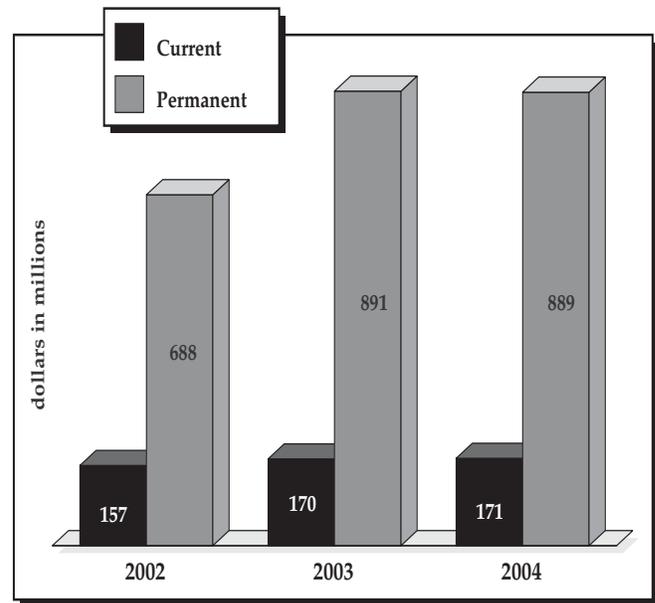
MINERALS MANAGEMENT SERVICE

Mission – The Minerals Management Service was formed by Secretarial Order in 1982 to facilitate the Nation’s mineral revenue collection efforts and manage its Outer Continental Shelf offshore lands. The MMS has two major responsibilities: management of energy and mineral resources on the Nation’s OCS in an environmentally sound and safe manner; and timely and accurate collection, distribution, accounting for, and auditing of revenues owed by holders of mineral leases on Federal onshore and offshore and Indian lands.

Program Overview – The MMS programs are vitally important, contributing significantly to the Nation’s economic well-being and energy security. Energy production from the OCS helps to limit dependence on imported energy. The increased natural gas produced from the OCS will continue to play a key role in our Nation’s efforts to reduce air pollution. In 2004, the MMS programs will collect about \$5.8 billion in revenues from minerals produced from offshore and onshore Federal and Indian lands. This income contributes to the funding of other Federal programs. In addition to Federal and tribal interests, MMS supports States and local governments through revenue sharing and by providing OCS sand and gravel for beach nourishment projects. Since 1994, increasing OCS rental revenues have permitted MMS to use receipts to cover over \$676 million in previously appropriated activities, releasing the equivalent amount of budget authority to address other Federal high-priority programs. The 2004 budget request will add another \$100.2 million to that total.

To ensure OCS development is carried out in an environmentally responsible manner, MMS inspects all offshore facilities, reviews plans of exploration and development, analyzes statements of financial responsibility, and funds scientific and engineering research related to OCS mineral development. The MMS also utilizes a broad range of financial services, and pursues a comprehensive compliance strategy that includes an automated compliance verification program to validate the accuracy and timeliness of revenues paid and an audit program staffed by MMS, States, and tribal auditors to ensure proper revenues are collected and disbursed.

MMS Funding



Management Excellence – The MMS continues to follow the President’s management agenda for improving management and performance of the Federal government, practicing the Secretary’s vision for citizen-centered management excellence. The MMS programs have worked extensively to step down from the goals in the Department’s new unified strategic plan. The budget proposal supports the Department’s new strategic plan, specifically in relation to the goals of managing energy resources to enhance public benefit, promoting responsible use of the Nation’s resources, protecting lives and the environment in offshore operations, and ensuring that taxpayers receive optimal value for the development of those resources.

The MMS is piloting activity-based cost management in 2003 and has completed a work force development plan. The MMS has taken an aggressive approach to outsourcing and will meet the two-year, 15 percent goal of 78 functions reviewed by the end of 2003. In 2002, MMS’s Environmental Studies program was reviewed using

OMB's Program Assessment Rating Tool. The assessment found that the program is very effective in providing timely and peer-reviewed environmental research to decisionmakers and that the strength of the research is derived from the program process MMS put into place. The Environmental Studies program received a score of 82 percent and was rated moderately effective.

Budget Overview – The 2004 MMS budget request is \$271.6 million in current appropriations. Three permanent appropriations totaling \$888.8 million will provide States with their statutory shares of mineral leasing revenues generated on Federal lands.

Offsetting receipts are estimated to be \$100.2 million in 2004, the same level as the 2003 request. The 2004 request for direct appropriations is \$171.3 million, including increases totaling \$12.9 million over the 2003 President's budget. These increases will enable MMS to continue development of the e-government initiative in the Offshore Minerals Management program; perform needed software upgrades and operational support to the newly re-engineered royalty system; and allow MMS to keep pace with the heavy demand for services on the OCS. Included in the additional funding is \$2.8 million for uncontrollable costs and \$645,000 to address information technology security requirements. The increase in funding is offset by \$11.9 million in savings generated by the completion of the royalty-in-kind management system, organizational streamlining and downsizing within the OCS program, and savings in bureau information technology investments.

OCS Program – The goal of the OCS program is to provide for safe and environmentally sound energy and mineral development on the OCS and to ensure that the public receives fair market value for these resources. The OCS activities contribute to the Nation's economic well-being and energy security. To carry out this goal, MMS's activities include review of new exploration and development plans, examination of pipeline right-of-way applications, environmental assessments, and inspections of mineral extraction operations on-site. The 2004 budget requests \$139.2 million for OCS program activities, a net increase of \$1.7 million above the 2003 request.

The 2004 budget request includes an increase of \$1.6 million in support for OCS activities in the Gulf of Mexico. This increase continues to support the Administration's energy policy to promote domestic production of oil and natural gas, which includes processing permits to drill, reviewing development plans, and inspecting offshore operations to ensure both worker and environmental safety. As leases mature and move toward production, industry demand for MMS's services increases, particu-

larly in deep water. To facilitate this move to production, and to prevent an accumulation of unprocessed permits, MMS plans to increase staff needed to perform required environmental impact assessments in support of permit requests; to review development plans; and to ensure adequate inspection of offshore operations.

The demand for natural gas is expected to increase significantly in response to conversion of electric power plants from coal to cleaner burning natural gas, and other industrial and domestic needs. Domestic production from conventional sources cannot keep pace with the increase in demand. An alternate domestic source of natural gas to meet the projected demand may be methane hydrates, naturally-occurring crystalline substances composed of water and gas, in which a solid water-lattice holds gas molecules in a cage-like structure. The Methane Hydrate Research and Development Act of 2000 directs several Federal agencies, including MMS, the U.S. Geological Survey, and Department of Energy, to commence basic and applied research to identify, explore, assess, and develop methane hydrates as a source of energy. The MMS participates in interagency discussions of proposed gas research activities. The 2004 President's budget request includes an increase of \$300,000 to develop the methodology to establish an analytical model to determine the quantitative estimation of hydrates in the OCS. This two-phase initiative will allow MMS to be ready with proper policy and planning for future gas production from hydrates in the OCS once industry is ready with the technology for offshore hydrate production. The USGS will collaborate with MMS on emerging hydrate resource projects in Alaska and the Gulf of Mexico, as well as studies of hydrate occurrence and release in marine environments. Additionally, Interior is collaborating with DOE in basic research with industry to develop the technologies necessary to produce natural gas from this emerging resource. In 2004 DOE will fund one joint industry project that will continue resource characterization of hydrates from Alaska permafrost and the Gulf of Mexico.

As a result of its expanding workload in offshore mineral development, MMS is faced with an exponential increase in the volume of data it handles and the need for optimal data integrity and management. The needs of the organization have outpaced the business practices under current technology. In 2003, MMS requested additional funding to begin the first phase of a multi-year plan to develop an e-government transformation initiative, an innovative web-based management information system. In 2004, MMS requests an increase of \$2.9 million to launch the second phase of the project, which will include expanding the development of the electronic document and records management systems capabilities.

The MMS is also responsible for overseeing and ensuring that over 4,000 offshore production facilities and 33,000 miles of pipeline are secure. An increase of \$600,000 is proposed to improve cooperative efforts with industry and Federal, State, and local entities to develop consistent security protocols and protective measures for these facilities and the 55,000 petroleum workers in the Gulf of Mexico, and to provide additional security for facilities.

The MMS is committed to the Administration's management agenda and continues to explore areas in which to streamline its organizational structure while increasing its operational effectiveness. The 2003 President's budget included a proposal to streamline the OCS Pacific Region office. This restructuring will be complete by the end of 2003, and MMS will realize additional savings of \$1.5 million into 2004. In 2004, MMS proposes to consolidate its operations in the Gulf of Mexico Region by closing two offices: one in Corpus Christi, Texas, and the other in Pensacola, Florida. These office closures will generate \$875,000 in savings. The functions at these offices will continue at the Gulf of Mexico OCS regional office. The MMS has also identified additional streamlining savings of \$1.2 million for 2004 by employing a combination of technological solutions, centralization of functions, and joining duties across its organization.

Minerals Revenue Management – In 2004, the total Minerals Revenue Management program is funded at \$80.4 million, a decrease of \$2.9 million from the 2003 request level.

The goal of the MRM program is to ensure that revenues from Federal and Indian mineral leases are effectively, efficiently, and accurately collected, accounted for, and disbursed to recipients. These revenues, which have historically averaged over \$6 billion per year, are distributed and disbursed to 38 States, 41 Indian Tribes, some 20,000 American Indian mineral royalty owners, and to U.S. Treasury accounts. In order to meet these responsibilities, the Department completed a three-year effort to re-engineer the operational systems of the royalty management program in 2001. The re-engineered system is now on-line and operational, using contractor-owned and operated software. In order to ensure continued system-wide functionality, the 2004 request includes an

increase of \$2.0 million in order to implement contractor software upgrades.

In 2003, MMS will complete the procurement of its royalty-in-kind system, freeing \$6.0 million for other initiatives. The three-module RIK system is designed to manage the transactions involved in the proper collection and valuation of royalties taken in-kind. In 2004, MMS requests \$1.0 million to operate, support, and provide enhancements to the system.

In response to the Administration's initiative to enhance U.S. energy security in the near-term, MMS has begun accepting royalty-in-kind payments to transfer to DOE for use in refilling the Strategic Petroleum Reserve, the Nation's emergency energy stockpile. Oil delivery began in April 2002 at 60,000 barrels per day, and increased to 100,000 barrels per day by October 2002. By spring 2003, delivery will reach 130,000 barrels. The MMS will use a portion of the revenues from in-kind sales to recover transportation, salaries, and other administrative costs directly associated with the filling of the SPR.

Administrative Initiatives – Interior is undertaking significant information technology reforms to improve the management of IT investments, improve the security of systems and information, and realize short- and long-term efficiencies and savings. The Department's corporate approach includes consolidated purchases of hardware and software; consolidation of support functions including help desks, e-mail support, and web services; and coordination of training. The MMS's budget includes a reduction of \$2.3 million for IT systems streamlining and an increase of \$645,000 for IT security.

Oil Spill Research Program – This program supports oil pollution research related to oil spill prevention, as authorized by the Oil Spill Pollution Act of 1990. The budget requests \$7.1 million in 2004, an increase of \$1.0 million. The additional funding will be used to begin a four-year phased replacement of equipment and increased operational costs at the National Oil Spill Response Test Facility. The only one of its type in the world, the facility is a critical tool in the development of oil spill response technology by providing full-scale equipment and methodology testing in a safe, controlled environment.

SUMMARY OF BUREAU APPROPRIATIONS
(all dollar amounts in thousands)

Comparison of 2004 Request with 2003 President's Budget:

	2003 Budget		2004 Request		Change from 2003	
	<u>FTE</u>	<u>Amount</u>	<u>FTE</u>	<u>Amount</u>	<u>FTE</u>	<u>Amount</u>
Appropriations						
Royalty and Offshore Minerals Management	1,725	164,222	1,725	164,216	0	-6
Oil Spill Research	22	6,105	22	7,105	0	+1,000
Subtotal, Direct Appropriations	1,747	170,327	1,747	171,321	0	+994
Offsetting Collections	0	[100,230]	0	[100,230]	0	0
Subtotal, Appropriations	1,747	170,327	1,747	171,321	0	+994
Permanents and Trusts						
Mineral Leasing and Associated Payments	0	886,694	0	884,438	0	-2,256
Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes	0	1,231	0	1,252	0	+21
Nat'l. Forests Funds, Payments to State	0	3,057	0	3,081	0	+24
Subtotal, Permanents and Trusts	0	890,982	0	888,771	0	-2,211
TOTAL, MINERALS MANAGEMENT SERVICE	1,747	1,061,309	1,747	1,060,092	0	-1,217

HIGHLIGHTS OF BUDGET CHANGES
By Appropriation Activity/Subactivity

APPROPRIATION: Royalty and Minerals Management

	<u>2002 Actual</u>	<u>2003 Budget</u>	<u>2004 Request</u>	<u>Change from 2003 Budget</u>
Outer Continental Shelf Lands				
Leasing & Environmental Program				
Appropriation	18,238	17,298	16,910	-388
Offsetting Collections	17,135	20,335	20,335	0
Total, Leasing & Environ. Prog.	35,373	37,633	37,245	-388
Resource Evaluation Program				
Appropriation	16,074	16,445	16,805	+360
Offsetting Collections	8,903	8,903	8,903	0
Total, Resource Evaluation Prog. ...	24,977	25,348	25,708	+360
Regulatory Program				
Appropriation	35,129	36,069	35,959	-110
Offsetting Collections	14,443	14,443	14,443	0
Total, Regulatory Program	49,572	50,512	50,402	-110
Information Management Program				
Appropriation	845	10,001	11,802	+1,801
Offsetting Collections	14,049	14,049	14,049	0
Total, Info. Mgmt. Program	14,894	24,050	25,851	+1,801
Offshore Management Support				
Appropriation	0	0	0	0
Offsetting Collections	0	0	0	0
Total, Offshore Mgmt. Support	0	0	0	0
OCS Appropriation	70,286	79,813	81,476	+1,663
OCS Offsetting Collections	54,530	57,730	57,730	0
Subtotal, OCS Lands	124,816	137,543	139,206	+1,663
Minerals Revenue Management				
Compliance & Asset Management				
Appropriation	34,871	35,489	33,029	-2,460
Offsetting Collections	16,435	13,235	13,235	0
Total, Valuation & Operations	51,306	48,724	46,264	-2,460
Revenue & Operations				
Appropriation	21,961	21,295	20,867	-428
Offsetting Collections	13,250	13,250	13,250	0
Total, Compliance	35,211	34,545	34,117	-428
Indian Allottee Refunds				
Appropriation	0	0	0	0
Offsetting Collections	15	15	15	0
Total, Indian Allottee Refunds	15	15	15	0
Late Interest Payments				
Appropriation	0	0	0	0
Offsetting Collections	0	0	0	0
Total, Late Interest Payments	0	0	0	0

	<u>2002 Actual</u>	<u>2003 Budget</u>	<u>2004 Request</u>	<u>Change from 2003 Budget</u>
Program Service Office				
Appropriation	0	0	0	0
Offsetting Collections	0	0	0	0
Total, Program Service Office	0	0	0	0
RM Appropriation	56,832	56,784	53,896	-2,888
RM Offsetting Collections	29,700	26,500	26,500	0
Subtotal, Royalty Management	86,532	83,284	80,396	-2,888
General Administration				
Executive Direction				
Appropriation	1,003	1,030	1,062	+32
Offsetting Collections	1,000	1,000	1,000	0
Total, Executive Direction	2,003	2,030	2,062	+32
Policy & Management Improvement				
Appropriation	3,036	3,095	3,150	+55
Offsetting Collections	1,000	1,000	1,000	0
Total, Policy & Mgmt. Improve.	4,036	4,095	4,150	+55
Administrative Operations				
Appropriation	14,407	15,083	15,272	+189
Offsetting Collections	1,555	1,555	1,555	0
Total, Admin. Operations	15,962	16,638	16,827	+189
General Support Services				
Appropriation	5,071	8,417	9,360	+943
Offsetting Collections	14,945	12,445	12,445	0
Total, General Support Services	20,016	20,862	21,805	+943
GA Appropriation	23,517	27,625	28,844	+1,219
GA Offsetting Collections	18,500	16,000	16,000	0
Subtotal, General Administration ..	42,017	43,625	44,844	+1,219
TOTAL APPROPRIATION	253,365	264,452	264,446	-6
Total Appropriation	150,635	164,222	164,216	-6
Total Offsetting Collections	102,730	100,230	100,230	0

Highlights of Budget Changes

Uncontrollable Costs Amount
[+5,229]

Outer Continental Shelf Lands

The Minerals Management Services' Gulf of Mexico OCS Region is confronted with a continuing increase in the level and complexity of work associated with offshore oil and gas activity. Near record numbers of deepwater rigs are now drilling in the Gulf. While there has been some fluctuation in the price of oil and some moderation in the pace of oil and gas activity, principally in shallow water, deepwater exploration has increased dramatically and is expected to remain at high levels and generate additional workload for the MMS.

Leasing & Environmental

-388

An increase is proposed for GOM Workload (+240). Decreases reflect organizational streamlining initiatives within the Offshore Minerals Management program (-300), the closure of one OCS office (-125), and savings from streamlining activities in the Pacific Region (-500). Uncontrollable costs total \$584 of which \$297 are budgeted and \$287 are absorbed.

	<u>Amount</u>
Resource Evaluation	+360
<p>Increases are proposed for Gulf of Mexico Workload (+560), and to pursue methane hydrates research (+300). Decreases reflect organizational streamlining initiatives within the Offshore Minerals Management program (-300) and savings from streamlining activities in the Pacific Region (-500). Uncontrollable costs total \$591 of which \$300 are budgeted and \$291 are absorbed.</p>	
Regulatory	-110
<p>Increases are requested for GOM Workload (+800) and physical security of OCS facilities (+350). Decreases reflect organizational streamlining initiatives within the Offshore Minerals Management program (-500), the closure of one OCS subdistrict office (-750), and savings from streamlining activities in the Pacific Region (-500). Uncontrollable costs total \$966 of which \$490 are budgeted and \$476 are absorbed.</p>	
Information Management	+1,801
<p>An increase of \$2,908 is requested for the multi-year e-Government initiative. The budget includes decreases that reflect organizational streamlining initiatives within the Offshore Minerals Management program (-100) and reductions in bureau IT investments (-1,150) associated with the Department's streamlining initiative. Uncontrollable costs total \$282 of which \$143 are budgeted and \$139 are absorbed.</p>	
Minerals Revenue Management	
<p>Minerals Revenue Management in partnership with the Department of Energy responded to President Bush's November 13, 2001, directive to fill the remaining capacity of the Strategic Petroleum Reserve from crude oil originating as Royalty-in-Kind oil. MRM has well-developed relationships with producers, pipelines, aggregators, exchange partners, and purchasers of crude oil. The last staged increase, to a total delivery of 130,000 barrels per day, in the SPR fill initiative is effective April 1, 2003, and will represent 80 percent of all Federal oil produced from the Gulf of Mexico.</p>	
Compliance and Asset Management	-2,460
<p>Increases are proposed to fund operational support and enhancements for the royalty-in-kind systems (+1,000), and to provide contractor software upgrades to the reengineered minerals revenue management system (+2,000). Decreases reflect the completion of RIK Liquids and Risk Management Systems (-6,015). Uncontrollable costs total \$1,093 of which \$555 are budgeted and \$538 are absorbed.</p>	
Revenue & Operations	-428
<p>Decreases of \$740 reflect reductions in bureau IT investments. Uncontrollable costs total \$615 of which \$312 are budgeted and \$303 are absorbed.</p>	
General Administration	
Executive Direction	+32
<p>Uncontrollable costs total \$63 of which \$32 are budgeted and \$31 are absorbed.</p>	
Policy & Management Improvement	+55
<p>Uncontrollable costs total \$108 of which \$55 are budgeted and \$53 are absorbed.</p>	
Administrative Operations	+189
<p>An increase is requested to ensure physical security of MMS facilities (+250). Decreases reflect reductions in bureau IT investments (-380). Uncontrollable costs total \$629 of which \$319 are budgeted and \$310 are absorbed.</p>	
General Support Services	+943
<p>Increases are proposed for IT Security (+645). Uncontrollable costs total \$298 of which \$298 are budgeted and \$0 are absorbed.</p>	

APPROPRIATION: Oil Spill Research

	<u>2002 Actual</u>	<u>2003 Budget</u>	<u>2004 Request</u>	<u>Change from 2003 Budget</u>
TOTAL APPROPRIATION	6,105	6,105	7,105	+1,000

Highlights of Budget Changes

	<u>Amount</u>
National Oil Spill Response Test Facility An increase of \$1,000 is requested to begin a four-year phased replacement of equipment and for increased operational costs at the National Oil Spill Response Test Facility.	+1,000